Lansing Entertainment and Public Facilities Authority

LEPFA

Lansing Entertainment & Public Facilities Authority

Year Ended June 30, 2012

Financial Statements

Rehmann

Business wisdom delivered.

LANSING ENTERTAINMENT AND PUBLIC FACILITIES AUTHORITY

Table of Contents

Rehmann Robson

675 Robinson Rd.
Jackson, MI 49203
Ph: 517.787.6503
Fx: 517.788.8111
www.rehmann.com

INDEPENDENT AUDITORS' REPORT

January 17, 2013

The Honorable Mayor,
Members of the City Council, and
Members of the Board of Commissioners of the
Lansing Entertainment and Public Facilities Authority
Lansing, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the *Lansing Entertainment and Public Facilities Authority (the "Authority"),* a component unit of the City of Lansing, Michigan, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Lansing Entertainment and Public Facilities Authority, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated January 17, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles general accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Rehmann Robson

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the *Lansing Entertainment and Public Facilities Authority (LEPFA)* we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2012.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal by $584,969 *(net assets).* Of this amount, $525,524 *(unrestricted net assets)* may be used to meet the Authority's ongoing obligations to citizens and creditors.

- The Authority's total net assets increased by $27,208 for fiscal 2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of:

- The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

- The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

- The *statement of cash flows* presents the change in the Authority's cash and investments for the two most recent fiscal years.

- The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of LEPFA, assets exceeded liabilities by $584,969 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets (89.8 percent) is its unrestricted net assets which may be used to meet the Authority's ongoing obligations to system users and creditors.

The remaining portion of the net assets (10.2 percent) is its investment in capital assets (e.g., land, buildings, systems, equipment and construction in process); less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services; consequently, these assets are *not* available for future spending. Although LEPFA's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the Authority is able to report positive balances in both categories of net assets. The same situation held true for the prior fiscal year.

	2012	2011
LEPFA's Net Assets		
Current and other assets	$ 1,212,685	$ 1,422,572
Capital assets	64,786	111,992
Total assets	1,277,471	1,534,564
Long-term liabilities outstanding	5,341	11,044
Other liabilities	687,161	965,759
Total liabilities	692,502	976,803
Net assets:		
Invested in capital assets, net of related debt	59,445	100,948
Unrestricted	525,524	456,813
Total net assets	$ 584,969	$ 557,761

	2012	2011
LEPFA's Changes in Net Assets		
Operating revenue	$ 5,133,788	$ 4,549,708
Operating expenses	6,471,140	5,935,901
Operating loss	(1,337,352)	(1,386,193)
Nonoperating revenue	1,364,560	1,305,024
Change in net assets	27,208	(81,169)
Net assets - beginning	557,761	638,930
Net assets - end of year	$ 584,969	$ 557,761

The Authority’s net assets increased by $27,208 for fiscal 2012. Key elements of the 2012 increase include:

Reasons for this increase were tied to unanticipated business in excess of what was budgeted. These events also carried with them ancillary revenue which helped with the change in net assets.

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital assets. LEPFA's investment in capital assets as of June 30, 2012 amounted to $64,786 (net of accumulated depreciation). This investment in capital assets includes equipment. Total net capital assets decreased by $47,206. The decrease is due to depreciation expense.

	2012	2011
LEPFA's Capital Assets		
Equipment	$ 1,503,667	$ 1,503,667
Less accumulated depreciation	1,438,881	1,391,675
	$ 64,786	$ 111,992

Long-term debt. At year-end, the Authority had $5,341 of long-term installment purchase agreements.

	2012	2011
LEPFA's Outstanding Debt		
Installment purchase agreements	$ 5,341	$ 11,044

Additional information on the Authority's long-term debt can be found in note 8 of this report.

Economic Factors Affecting Next Year's Operations

The Authority is concerned with several types of economic factors that will significantly affect business in fiscal year 2012-2013. The most significant among them are changes in consumer/customer behavior in response to local and regional economic conditions, the effects of inflation on the local labor market, health care costs, and the rates charged by the Authority's utility supplier.

The Authority's plan reflects a belief that local economic conditions will remain flat from those during fiscal year 2011-2012. Inflation in the local labor markets will remain moderate, whereas inflation in utility and health care costs will be expected to rise.

Requests for Information

This financial report is designed to provide a general overview of LEPFA's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Lansing Entertainment and Public Facilities Authority, 333 E. Michigan Avenue, Lansing, Michigan 48933.

BASIC FINANCIAL STATEMENTS

Statement of Net Assets
June 30, 2012

	Lansing Center	Cooley Stadium	City Market	Total
Assets				
Cash and cash equivalents	$ 30,734	$ 96,660	$ 149,480	$ 276,874
Restricted cash and cash equivalents	397,015	80,000	-	477,015
Accounts receivable, net	262,229	45,938	12,265	320,432
Due from other funds	39,467	-	-	39,467
Prepaid expenses	21,656	4,793	-	26,449
Inventory	71,609	-	839	72,448
Capital assets, net	35,418	1,163	28,205	64,786
Total assets	858,128	228,554	190,789	1,277,471
Liabilities				
Accounts payable	130,091	72,147	7,602	209,840
Accrued liabilities	108,819	158	384	109,361
Due to other funds	-	22,889	16,578	39,467
Unearned revenue	271,750	-	56,743	328,493
Installment purchases payable:				
Due in one year	2,608	-	-	2,608
Due in more than one year	2,733	-	-	2,733
Total liabilities	516,001	95,194	81,307	692,502
Net assets				
Invested in capital assets, net of related debt	30,077	1,163	28,205	59,445
Unrestricted	312,050	132,197	81,277	525,524
Total net assets	$ 342,127	$ 133,360	$ 109,482	$ 584,969

The accompanying notes are an integral part of these financial statements.

LANSING ENTERTAINMENT AND PUBLIC FACILITIES AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012

	Lansing Center	Cooley Stadium	City Market	Total
Operating revenues				
Building rental	$ 906,116	$ 16,750	$ 110,313	$ 1,033,179
Security	52,123	1,981	-	54,104
Food services	2,829,378	11,411	-	2,840,789
Equipment rental	617,056	4,420	-	621,476
Box office	24,799	1,270	-	26,069
Labor/service	211,340	8,182	-	219,522
Trade show utilities	151,214	-	-	151,214
Other	151,088	7,478	28,869	187,435
Total operating revenues	4,943,114	51,492	139,182	5,133,788
Operating expenses				
Personnel services	2,409,331	84,933	74,273	2,568,537
Food and beverage	1,703,318	-	-	1,703,318
Communications	17,673	1,523	1,282	20,478
Rents and leases	41,241	-	-	41,241
Professional services	281,275	878	5,703	287,856
Utilities	651,311	115,273	61,326	827,910
Marketing	42,697	3,982	7,729	54,408
Repairs and maintenance	100,347	46,211	10,608	157,166
Supplies and materials	87,361	1,422	8,861	97,644
Insurance	61,054	18,710	1,516	81,280
Events	143,344	1,847	-	145,191
Security	61,522	2,005	-	63,527
Depreciation	36,684	957	9,565	47,206
Bad debt expense	214,810	-	-	214,810
Other	110,313	49,200	1,055	160,568
Total operating expenses	5,962,281	326,941	181,918	6,471,140
Operating loss	(1,019,167)	(275,449)	(42,736)	(1,337,352)
Nonoperating revenue (expense)				
Interest income	59	40	26	125
Annual operating subsidy - City of Lansing	798,750	304,794	39,865	1,143,409
Pass-through of hotel/motel tax collections from Greater Lansing Convention and Visitors Bureau	245,656	-	-	245,656
Interest expense	(406)	-	-	(406)
Capital development fund expense	-	(24,224)	-	(24,224)
Total nonoperating revenue	1,044,059	280,610	39,891	1,364,560
Change in net assets	24,892	5,161	(2,845)	27,208
Net assets, beginning of year	317,235	128,199	112,327	557,761
Net assets, end of year	$ 342,127	$ 133,360	$ 109,482	$ 584,969

The accompanying notes are an integral part of these financial statements.

LANSING ENTERTAINMENT AND PUBLIC FACILITIES AUTHORITY

Statement of Cash Flows
For the Year Ended June 30, 2012

	Lansing Center	Cooley Stadium	City Market	Total
Cash flows from operating activities				
Cash received from customers	$ 5,226,176	$ 75,634	$ 140,772	$ 5,442,582
Cash received from interfund services	2,813	7,930	750	11,493
Cash payments for goods and services	(3,737,563)	(326,563)	(97,117)	(4,161,243)
Cash payments to employees	(2,382,414)	(84,933)	(74,511)	(2,541,858)
Cash payments for interfund services	(750)	-	(10,743)	(11,493)
Net cash used in operating activities	(891,738)	(327,932)	(40,849)	(1,260,519)
Cash flows from noncapital financing activities				
Cash transfers from City and Common Ground	798,750	304,794	39,865	1,143,409
Cash transfers from Convention and Visitors Bureau	245,656	-	-	245,656
Net cash provided by noncapital financing activities	1,044,406	304,794	39,865	1,389,065
Cash flows from capital and related financing activities				
Payments on installment purchase agreements	(5,703)	-	-	(5,703)
Interest on installment purchase agreements	(406)	-	-	(406)
Net cash used in capital and related financing activities	(6,109)	-	-	(6,109)
Cash flows from investing activities				
Interest on cash and cash equivalents	59	40	26	125
Net change in cash and cash equivalents	146,618	(23,098)	(958)	122,562
Cash and cash equivalents, beginning of year	281,131	199,758	150,438	631,327
Cash and cash equivalents, end of year	$ 427,749	$ 176,660	$ 149,480	$ 753,889
Reconciliation of operating loss to net cash used for operating activities				
Operating loss	$ (1,019,167)	$ (275,449)	$ (42,736)	$ (1,337,352)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense	36,684	957	9,565	47,206
Accounts receivable	323,611	25,092	(8,224)	340,479
Due from other funds	2,813	-	750	3,563
Prepaid expenses	(3,052)	(875)	-	(3,927)
Inventory	(7,487)	-	(179)	(7,666)
Accounts payable	(210,758)	(84,637)	1,142	(294,253)
Accrued liabilities	26,917	-	(238)	26,679
Due to other funds	(750)	7,930	(10,743)	(3,563)
Unearned revenue	(40,549)	(950)	9,814	(31,685)
Net cash used in operating activities	$ (891,738)	$ (327,932)	$ (40,849)	$ (1,260,519)

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lansing Entertainment and Public Facilities Authority (the “Authority” or “LEPFA”) was established under the charter of the City of Lansing in February, 1996, replacing the former Greater Lansing Convention/Exhibition Authority. LEPFA was established to oversee the management and operations of the Lansing Center, the City Market and the Cooley Law School Stadium under an agreement with the City of Lansing.

The Authority is chartered as a building authority under the provisions of Act 31, Public Acts of Michigan, 1948. In the event of dissolution or termination of the Authority, all assets and rights of the Authority shall revert to the City of Lansing. The Authority’s Board of Commissioners consists of nine members appointed by the Mayor of the City of Lansing and approved by the City Council, and three ex-officio members.

The Authority is a component unit of the City of Lansing.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority reports the Lansing Center, Cooley Law School Stadium and City Market Enterprise Funds as major funds in accordance with GASB Statement No. 34. Each fund accounts for the activities of its respective facility.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund’s principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for facility rentals, sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Equity

Deposits and Investments

The Authority’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize governments to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers’ acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Assets

Under the terms of the Authority’s operating agreement with the City of Lansing, the Authority is required to restrict $50,000 annually for capital improvements and/or replacements. Any such monies unexpended shall be carried forward to future years. For the year ended June 30, 2012, all such restricted monies were expended on capital improvements, leaving a zero balance in restricted assets for capital improvements at year end.

Under an amendment to the operating agreement with the City of Lansing, the Authority is also required to maintain an Event Development cash reserve fund to provide a source of monies from which to finance events at the Cooley Law School Stadium. The fund was established by an initial contribution from the City and may be increased up to certain limits by the amount of any profits earned from such events. Restricted assets for event development amounted to $80,000 at June 30, 2012.

The Authority’s Board of Commissioners has also established a cash reserve account to ensure reasonable liquidity for Lansing Center operations. The balance of this cash reserve as of June 30, 2012 was $397,015 and is reported as restricted cash and cash equivalents in the statement of net assets. Generally, the reserve is intended to provide up to 60 days of operating cash (which would be approximately $850,000 if fully funded). The account is adjusted annually for the prior year operating results and does not correlate with the Authority’s net assets or fund equity. By contrast, the Authority’s fund equity position as of June 30, 2012, which represents accumulated net income, was $342,127 for the Lansing Center fund.

Capital Assets

Capital assets, which are limited to equipment, are stated at cost and depreciated using the straight line method over the estimated useful lives of the assets ranging from 3 to 10 years. Capital assets are defined by the government as assets with an initial, individual cost of more than $500 and an estimated useful life of 3 years. Facilities managed by the Authority are owned by the City of Lansing and, as such, the carrying values of these properties are reflected in the City’s financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Notes to Financial Statements

2. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the statement of net assets follows:

Statement of net assets		
Cash and cash equivalents	$	276,874
Restricted cash and cash equivalents		477,015
Total	$	753,889
Deposits and investments		
Bank deposits - Checking and savings accounts	$	328,991
Investments - Money market accounts		393,143
Cash on hand		31,755
Total	$	753,889

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. None of the Authority's investments at year end have maturity dates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, have been identified above for the Authority's investments.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, $247,910 of the Authority's bank balance of $497,910 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Authority's investment policy does not specifically address this risk, although the Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

3. TRANSACTIONS WITH THE CITY OF LANSING

For the year ended June 30, 2012, the City of Lansing provided annual operating subsidies to the Authority in the amount of $1,143,409 for the Lansing Center, Cooley Law School Stadium, and City Market.

4. RECEIVABLES

Receivables are composed entirely of amounts due from customers (net of an allowance for doubtful accounts in the amount of $17,808) and the City of Lansing. Accounts receivable as of June 30, 2012 were as follows:

Accounts receivable, net	$ 314,340
Accounts receivable - City of Lansing	6,092
Total accounts receivable	$ 320,432

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Machinery and equipment	$ 1,503,667	$ -	$ -	$ 1,503,667
Less accumulated depreciation	1,391,675	47,206	-	1,438,881
Net capital assets	$ 111,992	$ (47,206)	$ -	$ 64,786

6. PAYABLES

Accounts payable is composed entirely of amounts due to vendors, except for $57,867 payable to the City of Lansing. Accrued liabilities include wages payable, payroll taxes payable and insurance and benefits payable.

Notes to Financial Statements

7. INTERFUND RECEIVABLES AND PAYABLES

Amounts due from and to other funds at year-end are as follows:

	Receivable	Payable
Lansing Center	$ 39,467	$ -
Cooley Law School Stadium	-	22,889
City Market	-	16,578
	$ 39,467	$ 39,467

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

8. LONG-TERM DEBT

The Authority has entered into various long-term installment purchase agreements. The original amount of installment obligations issued in prior years for the items listed below was $142,947. Installment purchase agreements outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
2004 equipment purchases	4.90%	$ 5,341

Changes in installment purchase agreements payable for the year ended June 30, 2012, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Installment purchase agreements	$ 11,044	$ -	$ 5,703	$ 5,341	$ 2,608

Annual debt service requirements to maturity for installment purchase agreements were as follows:

Year Ended June 30,	Principal	Interest
2013	$ 2,608	$ 211
2014	2,733	83
	$ 5,341	$ 294

Notes to Financial Statements

9. DEFINED CONTRIBUTION PENSION PLAN

The Authority has a defined contribution pension plan covering substantially all full-time employees who have completed 120 days of employment. The Authority contributes 12% of participating employees' annual compensation to the plan. Effective January 1, 2003, employees are required to contribute 7.5% of covered wages as defined in the plan; prior to that date, no employee contributions to this plan were required. Such current employee contributions are in lieu of federal social security participation. Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Commissioners. Employee contributions for the year ended June 30, 2012 were $153,260. Employer contributions for the year ended June 30, 2012 were $304,764.

■ ■ ■ ■ ■

This page intentionally left blank.

Rehmann

Rehmann Robson

675 Robinson Rd.
Jackson, MI 49203
Ph: 517.787.6503
Fx: 517.788.8111
www.rehmann.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH ***GOVERNMENT AUDITING STANDARDS***

January 17, 2013

Honorable Mayor,
Members of the City Council, and
Members of the Board of Commissioners of
the Lansing Entertainment and Public Facilities Authority
Lansing, Michigan

We have audited the financial statements of the business-type activities and each major fund of the *Lansing Entertainment and Public Facilities Authority,* a component unit of the City of Lansing, Michigan, as of and for the year ended June 30, 2012, which collectively comprise the Authority's financial statements, and have issued our report thereon dated January 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Lansing Entertainment and Public Facilities Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described below, which we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe that a material weakness, yet important enough to merit attention by those charged with governance.

2012-1 Internal Controls – Segregation of Duties (Repeat Comment)

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Authority's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the Authority's unique circumstances.

During the course of the audit we noted that:
- Maintenance of the receivable subsidiary ledger is not independent of general ledger maintenance.
- Billing is not independent of cash handling and accounts receivable bookkeeping.
- Persons preparing payroll are not restricted from access to other payroll data or cash.
- Handling of cash is not independent of accounts receivable bookkeeping.
- Check signing is not independent of the initiator of the preparer of checks and accounts payable.
- Bank accounts are not reconciled by individuals independent of cash receipts and disbursements.
- Invoice processing and accounts payable are not segregated from the general ledger function.
- Account distributions are not recorded by the operating department.

As is the case with many organizations of similar size, the Lansing Entertainment and Public Facilities Authority lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Essentially, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of an Authority's internal controls carries with it a greater risk of fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

However, we noted certain matters that we reported to management of the Authority in a separate letter dated January 17, 2013.

This information is intended solely for the use of management, the Board and others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson

Rehmann

Rehmann Robson

675 Robinson Rd.
Jackson, MI 49203
Ph: 517.787.6503
Fx: 517.788.8111
www.rehmann.com

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE UNDER SAS NO. 114

January 17, 2013

The Honorable Mayor, Members of the City Council
and Members of the Board of Commissioners of the
Lansing Entertainment and Public Facilities Authority
Lansing, Michigan

We have audited the financial statements of the business-type activities and each major fund of the *Lansing Entertainment and Public Facilities Authority* (the "Authority") for the year ended June 30, 2012, and have issued our report thereon dated January 17, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter dated June 8, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on July 23, 2012.

Significant Results of the Audit

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated January 17, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the **Lansing Entertainment and Public Facilities Authority** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson

LANSING ENTERTAINMENT AND PUBLIC FACILITIES AUTHORITY

Attachment A - Consideration of Internal Control Over Financial Reporting
For the June 30, 2012 Audit

We have audited the financial statements of the business-type activities and each major fund of the *Lansing Entertainment and Public Facilities Authority* (the "Authority") for the year ended June 30, 2012, and have issued our report thereon dated January 17, 2013.

In planning and performing our audit in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The deficiency we noted that we consider to be a significant deficiency is described in our report on internal control over financial reporting issued in accordance with *Government Auditing Standards*.

Other Matters

Internal Controls – Journal Entry Approval Process (repeat comment)

As a part of our procedures, we reviewed the Authority's process for generating and authorizing general journal entries and also reviewed support for several journal entries. During our testing, we noted that no review was performed on 6 of the 15 entries selected. We recommend that the Authority establish a formal procedure for completing and documenting the independent review of all general journal entries.

■ ■ ■ ■ ■

January 17, 2013

Rehmann Robson
P.O. Box 449
Jackson, MI 49204

We are providing this letter in connection with your audit of the financial statements of the *Lansing Entertainment and Public Facilities Authority* as of June 30, 2012 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Lansing Entertainment and Public Facilities Authority and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of January 17, 2013, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We have made available to you all—

   a. Financial records and related data.

   b. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We are in agreement with the adjusting journal entries you have proposed, and they have been posted.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

a. Management,

b. Employees who have significant roles in internal control, or

c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

9. We have a process to track the status of audit findings and recommendations.

10. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

11. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

12. The Authority has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

13. The following, if any, have been properly recorded or disclosed in the financial statements:

a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

b. Guarantees, whether written or oral, under which the Authority is contingently liable.

c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.

14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

15. There are no—

a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants

333 E. Michigan Avenue, Lansing, MI 48933
Ph.: (517) 483-7400 - Fax: (517) 483-7439
www.lepfa.com

LANSING CENTER THE CENTER OF IT ALL
Oldsmobile PARK More Than Baseball!
LANSING CITY MARKET FRESH & UNIQUE
Member & Partner of: GREATER LANSING MICHIGAN CONVENTION & VISITORS BUREAU

LEPFA

whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.

16. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

17. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

18. The Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

19. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

20. The financial statements properly classify all funds and activities.

21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

22. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

23. Provisions for uncollectible receivables have been properly identified and recorded.

24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

27. Deposits and investments are properly classified as to risk and are properly disclosed.

28. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

29. We have appropriately disclosed the Authority's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both

LEPFA

restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.

30. We acknowledge our responsibility for the required supplementary information (RSI). The required supplementary information is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

31. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Signature 1/17/13

Pres/CEO
Title

Signature

Vice President Finance
Title